

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(PROPOSAL TWELVE)

Docket No. RM2016-3

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE  
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES  
IN ANALYTICAL PRINCIPLES (PROPOSAL TWELVE)  
(November 20, 2015)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, relating to the treatment of costs for vehicles used on city carrier letter routes within various cost components of the CRA Report, is labeled Proposal Twelve and is discussed in detail in the attached text.

While the interval between the filing of this petition and the scheduled submission of the FY2015 Annual Compliance Report is relatively short, the opportunity for filing this request only ripened when the Commission recently approved Proposal Thirteen in Docket No RM2015-7. See Order No. 2792 (Oct. 29, 2015). Proposal Thirteen involved a much more fundamental analysis of city carrier costs. One ancillary consequence of the approval of Proposal Thirteen, however, was a compelling need to re-align implicit findings from Proposal Thirteen regarding the nature of certain city carrier activities with the treatment afforded other costs (outside the confines of Proposal Thirteen) associated with the use of vehicles on city carrier letter routes.

Immediate consideration of Proposal Twelve is necessary to achieve that re-alignment. The mechanics of Proposal Twelve are straightforward, however, and (particularly given the Commission's resolution of Proposal Thirteen) the Postal Service is optimistic that the instant Proposal can be reviewed with very little controversy. In contrast, if Proposal Twelve were not submitted for the Commission's consideration now, there would be a mismatch between the current methodology for the treatment of these ancillary vehicle cost matters and the conceptual and empirical framework approved in Proposal Thirteen.

Against that backdrop, the Postal Service requests that the Commission initiate a rulemaking proceeding pursuant to 39 C.F.R. § 3050.11 to consider this proposal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## **Proposal Twelve**

### **CHANGE IN METHODOLOGY FOR CITY CARRIER LETTER ROUTE VEHICLE USE COSTS**

#### **OBJECTIVE:**

The Postal Service proposes to change the methodology for attributing costs relating to vehicles used on city carrier letter routes, including Motor Vehicle Service (MVS) Labor in Cost Segment 12.1, MVS Supplies and Materials in Cost Segment 12.2, and Vehicle Depreciation in Cost Segment 20. The proposed change aligns the treatment of vehicle costs with the new methodology for attributing labor street costs on city carrier letter routes as presented in Proposal Thirteen, which was recently accepted by the Commission.<sup>1</sup>

As part of this change, the Postal Service also proposes a minor change to the methodology for calculating office and street proportions which are used in the calculation of costs relating to city carrier labor in Vehicle Hire in Cost Segment 12.3 and Carfare and Driveout in Cost Segment 13.2.

#### **BACKGROUND:**

The current treatment of city carrier letter route vehicle costs was adopted in conjunction with the previous update to the street time letter route cost model in Docket No. R2005-1. The consistency in treatment between direct labor and vehicle costs is appropriate because a strong association exists between the two. Thus, now that Proposal Thirteen has been adopted as the established methodology for city street

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<sup>1</sup> See Docket No. RM2015-7, Order No. 2792 (October 29, 2015).

letter route costs, it is appropriate to propose a new method for the treatment of vehicle costs consistent with the new treatment of street costs.

The current treatment of vehicle costs divides the letter route vehicle costs into two pools: 1) Delivery Activities and 2) Network Travel for motorized letter routes.<sup>23</sup> In FY 2014, these respective proportions were approximately 42 and 58 percent. The attributable costs are then determined by multiplying each cost pool by the appropriate variability. Lastly, the attributable costs are assigned to products in the same proportions as Cost Segment 7 letter route Delivery Activities costs.

The Commission's recent Order No. 2792, approving Proposal Thirteen, established a new methodology for the treatment of labor costs on city delivery letter routes. Building on that, the instant proposal would calculate the attributable vehicle costs by multiplying the letter route vehicle costs by the new overall letter route street variability. Lastly, the attributable costs would be assigned to products using the proportions based on all letter route street costs.

A second part of this proposal applies to the office and street ratios developed in CS06&7, worksheet 7.0.4.3. The current treatment develops office and street proportions for foot and motorized routes using IOCS office costs by route type and street costs by delivery mode. Building on Proposal Thirteen, the office and street proportions for foot and motorized routes would be based on Delivery Operations Information System (DOIS) workhours.<sup>4</sup>

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<sup>2</sup> Letter route vehicle costs are obtained by applying the shares from the Solution to Enterprise Management (SEAM) database to the relevant general ledger costs. Under this proposal, SEAM will still be used to separate the letter route from special purpose route costs.

<sup>3</sup> See USPS-FY14-32, workbook CS06&7.xlsx, tab 7.0.4.5.

<sup>4</sup> Using DOIS office and street workhours for Foot and Motorized routes is the method also proposed previously as part of Proposal Nine in Docket No. RM2015-2. Please see the responses to Questions 2 and 3 of ChIR No.2 regarding Proposal Nine (filed November 28, 2014). In other words, this aspect of

**PROPOSAL:**

The Postal Service proposes a new methodology for vehicle use costs on letter routes, including MVS Maintenance Labor in Cost Segment 12.1, MVS Supplies and Materials in Cost Segment 12.2, and Vehicle Depreciation in Cost Segment 20. This method would bring the attribution and distribution of these costs into accordance with the new treatment of city carrier street time labor costs. The proposed method attributes vehicle use costs based upon all city carrier street time labor costs. Consequently, it modifies the distribution key for component number 579 developed in the CS06&7 workbook, tab Outputs to CRA, to include all letter route street costs. The CS12 workbook would continue to develop costs for USPS vehicles used on letter routes, but would no longer split the letter route costs between Delivery Activities and Network Travel. For Cost Segment 20, the methodology in the CS20 workbook would be aligned with Cost Segments 12.1 and 12.2 by separating special purpose route costs from letter route costs, and distributing both letter route and special purpose route costs in the same way as the Cost Segment 12 vehicle use cost components. Finally, the CRA Model would distribute the costs for vehicles used on letter routes based on the letter route distribution key from component 579. For Cost Segment 20, costs for vehicles used on special purpose routes would be distributed on distribution key component 578, following the current methodology for Cost Segments 12.1 and 12.2.

The new method for costs related to city carrier labor in Cost Segments 12.3 Vehicle Hire and Cost Segment 13.2 Carfare and Driveout would use work hours from

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Proposal Twelve duplicates the same method shift for the same function embedded in Proposal Nine, which is still pending. If Proposal Nine were approved prior to resolution of the instant case, this aspect of Proposal Twelve would be redundant. But if such timely approval does not occur, the Postal Service nonetheless seeks independent approval of that change in this docket so as to be able to move forward with Proposal Twelve.

DOIS to get the office and street proportions for foot and motorized routes. City carrier costs for Delivery Activities and Network Travel would be used to further divide the street proportions among these components. This is consistent with the Proposal Thirteen methods, which provide costs for all delivery modes combined. The changes to implement these methods are contained in workbook CS06&7, tab 7.0.4.3.

Proposal Twelve would impact the component structure of the CRA in cost segments 12 and 20. In cost segment 12, components 86 and 95 (each named Network Travel) would be removed and Components 83 and 92 would be renamed City Delivery Letter Routes in cost segments 12.1 and 12.2 respectively. In cost segment 20, Component 223 (named City Delivery SPR) would be added to assign SPR vehicle depreciation costs.<sup>5</sup> Component 221, formerly dormant, would be reactivated and named City Delivery Letter Routes. Components 222 and 225 (named Delivery Activities and Network Travel) would be removed.

**RATIONALE:**

The new city carrier street time methodology develops cost pool proportions for city carrier letter routes based on Form 3999 data. In the Form 3999 data, approximately 3 percent of the time is in Network Travel, compared with 11 percent in the prior methodology. As explained in The Report on City Carrier Scoping Study:<sup>6</sup>

A first difference occurs in the definitions of Network Travel Time from the CCSTS data and Travel Within Time from the Form 3999 data. The definition of Network Travel captures travel that takes place outside of delivery sections, including all time spent traveling between route sections, or to and from collection boxes. It includes both driving time and walking time. Travel Within in the Form 3999 data, in contrast, captures the amount of time spent moving the vehicle within the delivery sections... This means that Network Travel Time is

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<sup>5</sup> SPR – Special Purpose Routes

<sup>6</sup> See Docket No. RM2011-3, Scoping Study of the United States Postal Service, May 25, 2012 at 39.

incorporated into one of the other Form 3999 activities and the data suggest that it is incorporated into Sector Segment Time.

Proposal Twelve would align the calculation of vehicle use costs with the new street time methodology. This conforms to the long-standing practice of linking the treatment of direct labor and vehicle costs. The current treatment of vehicle costs was consistent with the previous street time methodology, so updating the treatment of letter route vehicle costs to align with the new letter route street cost model logically follows this practice. The proposed methodology for vehicle use cost recognizes that letter route carriers use their vehicles throughout their time on the street, while delivering mail, traversing the route, and while traveling to and from the route.

Proposal Twelve would also align the calculation of office and street proportions with the new street time methodology. DOIS workhours would provide the office and street proportions for foot and motorized routes, while street costs for all route types are further used to split the street proportion into Delivery Activities and Network Travel.

**IMPACT:**

The impact of this change is that higher proportions of MVS Labor, MVS Supplies, and Vehicle Depreciation costs for city carriers are attributed to products. For FY 2014, the current methodology assigns approximately 58 percent of the vehicle use costs to Network Travel, and 42 percent to Delivery Activities. Network Travel is not attributed, and letter route Delivery Activities costs has a variability of 43 percent, which results in a combined variability of 18 percent. In the proposed methodology, the city carrier letter route costs for MVS Labor, MVS Supplies, and Vehicle Depreciation costs are attributed in the same proportion as all letter route street activities in Cost Segment

7, which results in an attribution level of 36 percent. For FY 2014, attributable costs would increase by \$185 million under the proposed method.

The CS12 and CS20 workbooks that display the implementation of the proposed methodology are included in USPS-RM2016-3/1. The FY2014 CS06&7 public and nonpublic workbooks based on the current proposal for Vehicle Use and Proposal Thirteen are filed in USPS-RM2016-3/1 and USPS-RM2016-3/NP1, respectively. The cost impact by product for Proposal Twelve is shown in the following Table 1. Table 2 illustrates the change in the office and street proportions from workbook CS06&7, tab 7.0.4.3.



TABLE 1

Cost Impact by Product from Proposal Twelve

LINE NO.	PRODUCT	CRA CLASS	MVS Personnel City Delivery Street Total	MVS Personnel City Delivery Street Total	Difference	MVS Sup & Mat City Delivery Street Total	MVS Sup & Mat City Delivery Street Total	Difference	City Delivery Vehicle Depreciation	City Delivery Vehicle Depreciation	Difference
	COLUMN NUMBER		(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)=(4)-(5)	(7)	(8)	(9)=(7)-(8)
	UNITS		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
	COLUMN SOURCE/NOTES		Table 1 Calcs C5	Table 1 Calcs C6		Table 1 Calcs C10	Table 1 Calcs C11		Table 1 Calcs C15	Table 1 Calcs C16	
	Market Dominant Products										
1	FIRST-CLASS MAIL										
2	SINGLE-PIECE LETTERS	3	\$ 21,356	\$ 14,038	\$ 7,318	\$ 45,545	\$ 30,036	\$ 15,509	\$ 3,978	\$ 2,298	\$ 1,680
3	SINGLE-PIECE CARDS	4	\$ 1,063	\$ 676	\$ 387	\$ 2,266	\$ 1,445	\$ 821	\$ 195	\$ 112	\$ 83
4	PRESORT LETTERS	8	\$ 17,543	\$ 9,005	\$ 8,538	\$ 37,179	\$ 19,085	\$ 18,093	\$ 2,750	\$ 1,643	\$ 1,107
5	PRESORT CARDS	9	\$ 832	\$ 421	\$ 412	\$ 1,764	\$ 891	\$ 873	\$ 130	\$ 77	\$ 54
6	FLATS	16	\$ 1,977	\$ 1,183	\$ 794	\$ 4,209	\$ 2,525	\$ 1,684	\$ 352	\$ 198	\$ 154
8	PARCELS	19	\$ 830	\$ 485	\$ 345	\$ 1,776	\$ 1,045	\$ 731	\$ 167	\$ 73	\$ 93
9	TOTAL FIRST-CLASS		\$ 43,601	\$ 25,807	\$ 17,794	\$ 92,739	\$ 55,028	\$ 37,711	\$ 7,572	\$ 4,401	\$ 3,171
10	STANDARD MAIL							\$ -			\$ -
11	HIGH DENSITY & SATURATION LETTERS	21	\$ 3,419	\$ 1,418	\$ 2,002	\$ 7,246	\$ 3,005	\$ 4,242	\$ 535	\$ 259	\$ 276
12	HIGH DENSITY & SATURATION FLATS & PARCELS	22	\$ 9,806	\$ 2,545	\$ 7,261	\$ 20,781	\$ 5,394	\$ 15,387	\$ 1,535	\$ 465	\$ 1,070
13	EVERY DOOR DIRECT MAIL - RETAIL	24	\$ 702	\$ 207	\$ 495	\$ 1,487	\$ 439	\$ 1,048	\$ 110	\$ 38	\$ 72
14	CARRIER ROUTE	23	\$ 7,951	\$ 2,962	\$ 4,989	\$ 16,852	\$ 6,280	\$ 10,573	\$ 1,248	\$ 540	\$ 709
15	LETTERS	25	\$ 23,641	\$ 12,116	\$ 11,525	\$ 50,105	\$ 25,681	\$ 24,425	\$ 3,710	\$ 2,210	\$ 1,500
16	FLATS	26	\$ 4,688	\$ 1,806	\$ 2,882	\$ 9,938	\$ 3,831	\$ 6,107	\$ 742	\$ 327	\$ 415
17	PARCELS	27	\$ 160	\$ 74	\$ 86	\$ 340	\$ 158	\$ 181	\$ 28	\$ 12	\$ 15
18	TOTAL STANDARD MAIL		\$ 50,367	\$ 21,129	\$ 29,239	\$ 106,750	\$ 44,787	\$ 61,964	\$ 7,907	\$ 3,850	\$ 4,057
19	PERIODICALS							\$ -			\$ -
20	IN COUNTY	31	\$ 458	\$ 178	\$ 280	\$ 972	\$ 379	\$ 593	\$ 73	\$ 32	\$ 41
21	OUTSIDE COUNTY	32	\$ 4,268	\$ 1,661	\$ 2,607	\$ 9,050	\$ 3,526	\$ 5,524	\$ 682	\$ 298	\$ 384
22	TOTAL PERIODICALS		\$ 4,726	\$ 1,839	\$ 2,886	\$ 10,022	\$ 3,905	\$ 6,117	\$ 755	\$ 330	\$ 425
23	PACKAGE SERVICES							\$ -			\$ -
25	BOUND PRINTED MATTER FLATS	42	\$ 229	\$ 113	\$ 116	\$ 486	\$ 240	\$ 246	\$ 40	\$ 19	\$ 21
26	BOUND PRINTED MATTER PARCELS	43	\$ 926	\$ 647	\$ 279	\$ 2,007	\$ 1,416	\$ 591	\$ 247	\$ 75	\$ 172
27	MEDIA AND LIBRARY MAIL	44	\$ 376	\$ 262	\$ 113	\$ 814	\$ 573	\$ 240	\$ 98	\$ 32	\$ 66
28	TOTAL PACKAGE SERVICES		\$ 1,530	\$ 1,021	\$ 508	\$ 3,307	\$ 2,230	\$ 1,077	\$ 384	\$ 126	\$ 258
29	US POSTAL SERVICE	85	\$ 246	\$ 166	\$ 80	\$ 525	\$ 355	\$ 170	\$ 47	\$ 26	\$ 20
30	FREE MAIL	86	\$ 62	\$ 36	\$ 27	\$ 132	\$ 76	\$ 56	\$ 11	\$ 6	\$ 6
31	Total Domestic Market Dominant Mail		\$ 100,533	\$ 49,998	\$ 50,535	\$ 213,476	\$ 106,382	\$ 107,095	\$ 16,676	\$ 8,739	\$ 7,937
32	Ancillary Services							\$ -			\$ -
33	CERTIFIED	51	\$ 1,440	\$ 1,052	\$ 388	\$ 3,053	\$ 2,230	\$ 822	\$ 227	\$ 191	\$ 36
34	COD	52	\$ 9	\$ 6	\$ 2	\$ 18	\$ 14	\$ 5	\$ 2	\$ 1	\$ 0
35	INSURANCE	54	\$ 40	\$ 46	\$ (6)	\$ 84	\$ 97	\$ (13)	\$ 7	\$ 8	\$ (1)
36	REGISTRY	55	\$ 22	\$ 20	\$ 3	\$ 49	\$ 44	\$ 6	\$ 8	\$ 2	\$ 6
37	STAMPED ENVELOPES	56	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38	STAMPED CARDS	57	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
39	OTHER ANCILLARY SERVICES	58	\$ 944	\$ 697	\$ 246	\$ 2,005	\$ 1,483	\$ 522	\$ 159	\$ 123	\$ 36
40	Special Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
41	MONEY ORDERS	73	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
42	POST OFFICE BOX	74	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
43	OTHER SPECIAL SERVICES	76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
44	Total Domestic Market Dominant Services		\$ 2,454	\$ 1,821	\$ 633	\$ 5,210	\$ 3,868	\$ 1,342	\$ 403	\$ 325	\$ 78
45	Total Domestic Market Dominant Costs		\$ 102,987	\$ 51,819	\$ 51,168	\$ 218,686	\$ 110,250	\$ 108,436	\$ 17,079	\$ 9,064	\$ 8,015
46	Total Domestic Competitive Costs		\$ 14,043	\$ 9,873	\$ 4,170	\$ 30,455	\$ 21,598	\$ 8,857	\$ 3,734	\$ 1,189	\$ 2,546
47	INTERNATIONAL MAIL	185	\$ 1,079	\$ 699	\$ 379	\$ 2,328	\$ 1,525	\$ 804	\$ 263	\$ 88	\$ 174
48	TOTAL VOLUME VARIABLE COSTS		\$ 118,108	\$ 62,392	\$ 55,717	\$ 251,469	\$ 133,372	\$ 118,097	\$ 21,076	\$ 10,341	\$ 10,735
49	OTHER	199	\$ 209,488	\$ 265,205	\$ (55,717)	\$ 445,577	\$ 563,674	\$ (118,097)	\$ 36,382	\$ 47,117	\$ (10,736)
50	GRAND TOTAL		\$ 327,597	\$ 327,597	\$ (0)	\$ 697,046	\$ 697,046	\$ (0)	\$ 57,457	\$ 57,458	\$ (1)

**TABLE 2**  
**Change in Office and Street Proportions**

	FOOT ROUTE PROPORTIONS FOR C/S 13	FOOT ROUTE PROPORTIONS FOR C/S 13	MOTORIZED ROUTE PROPORTIONS, FOR C/S 12.3	MOTORIZED ROUTE PROPORTIONS, FOR C/S 12.3
	<b>Proposal 12</b>	<b>FY14 As Filed</b>	<b>Proposal 12</b>	<b>FY14 As Filed</b>
TOTAL IN-OFFICE	34%	32%	20%	22%
TOTAL STREET	66%	68%	80%	78%
DELIVERY ACTIVITIES	63%	49%	76%	68%
NETWORK TRAVEL	3%	20%	4%	10%
SOURCE: Worksheet 7.0.4.3, CS06&7.xlsx				